

Message Text

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ACTION EUR-12

INFO OCT-01 IO-14 ISO-00 SP-02 ICA-20 AID-05 EB-08
NSC-05 TRSE-00 SS-15 STR-07 OMB-01 CEA-01 CIAE-00
COME-00 FRB-01 INR-10 NSAE-00 XMB-04 OPIC-06
LAB-04 SIL-01 L-03 H-02 PA-02 DOE-15 SOE-02
AGRE-00 MMO-04 EA-12 NEA-11 /168 W
-----008700 031640Z /43

R 031510Z MAY 78

FM AMEMBASSY BERN

TO SECSTATE WASHDC 6204

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

USMISSION GENEVA

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

AMCONSUL ZURICH POUCH

UNCLAS SECTION 1 OF 2 BERN 2096

USMTN ALSO FOR MISSION

USOECN ALSO FOR MISSION

PASS TREAS AND FRB

E.O. 11652: N/A

TAGS: EFIN, SZ

SUBJ: SWISS FINANCIAL REVIEW: WEEK APR 23-29

1. SUMMARY: DOLLAR EXCHANGE RATE SLIPPED TO
SF 1.93 WHILE GOLD PRICE ROSE SLIGHTLY TO \$170
PER OUNCE. SWISS NATL BANK (SNB) REPORTED SF 1.4
BILLION 1977 FOREX LOSS. SNB PRES LEUTWILER SAID
SWISS 1978 CURRENT ACCOUNT SURPLUS MAY RISE TO SF
9 BILLION; SEISS FOREX MARKET INTERVENTION POLICY
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SIMILAR TO US; DOLLAR CANNOT BE REPLACED AS NUMERAIRE.
FINANCIAL MARKET LIQUIDITY EASED SLIGHTLY; BUT SNB
END-APRIL STATEMENT SHEET SHOWED AMPLE MARKET
LIQUIDITY. DINLOP INTL LTD ANNOUNCED MOVE TO
ZURICH; FIRESTONE DENIED ALLEGATIONS IT IS FAVORING
EAST EUROPEAN TIRE PLANTS. ECONOMIC INDICATORS
SHOWED CONTINUED GROWTH. END SUMMARY.

2. FOREX AND GOLD:

A) DOLLAR RATE AGAINST SF FLUCTUATED DOWNWARD FROM HIGH OF SF 1.97 MON. DEALERS NOTED US MAR DEFICIT WAS SMALLER THAN IN FEB BUT STRESSED DEFICIT WILL REMAIN LARGE UNTIL IMPORTANT CHANGES ARE MADE, PARTICULARLY IN ENERGY SECTOR. OTHER NEGATIVE FACTORS SAID TO HAVE AFFECTED DOLLAR RATE WERE EXPECTATION FOR BIGGER SWISS CURRENT ACCT SURPLUS IN 1978, AND THAT JAPAN'S SURPLUS WOULD REMAIN LARGE FOR SOME TIME.

B) SNB GEN MGR LANGUETIN SAID RAPID DOLLAR IMPROVEMENT REFLECTED PREVIOUS EXAGGERATED DLOOAR DECLINE; US ACTION ON INFLATIONA AND US ECONOMY'S BASIC STRENGTH. SNB PRES LEUTWILER SAID SOME SLIPPAGE IN DOLLAR RECOVERY IS EXPECTED; RESTRICTIONS ON CAPITAL INFLOWS WILL REMAIN IN FORCE UNTIL FOREX SITUATION STABILIZES.

C) GOLD PRICE ROSE TO \$170 FROM LOW OF \$165.75 PER OUNCE. DEALERS EXPECT INDIAN GOLD AUCTION, THOUGH ONLY FOR DOMESTIC BUYERS, TO HAVE IMPACT ON INTL MARKET. IMF AND US GOLD AUCTIONS ARE EXPECTED TO CAUSE PRICE DECLINE. RATES FOLLOW:
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	4/24 (OPEN)	4/28 (CLOSE)
SOPT DOLLAR	-1.9600	1.9295
FORWARD DISCOUNTS		
PCT PER ANNUM)		
1 MONTH	6.90	7.33
2 MONTHS	6.66	6.84
3 MONTHS	6.58	6.84
6 MONTHS	6.60	6.78
12 MONTHS	6.13	6.21
SF/DM	94.20	93.25
GOLD	169.00	170.25

3. SNB REPORT: SNB ANNUAL REPORT SHOWS EXCHANGE RATE LOSSES ON FOREX HOLDINGS EXCEEDED INTEREST EARNINGS FROM FOREX INVESTMENTS BY SF 1.4 BILLION. LOSS STEMMED FROM SNB REDUCTION OF US DOLLAR RATE IN ITS BALANCE SHEET FROM SF 2.50 IN 1976 TO SF 2.25 IN 1977 AND SDR FROM SF 2.75 TO SF 2.40. SNB SET DOLLAR RATE AT SF 2.25 TO UNDERLINE CONVICTION EXCHANGE RATE SF 2 AT END 1977 WAS TOO LOW. SNB GOLD HOLDINGS INCLUDE SUBSTANTIAL HIDDEN RESERVE; VALUED AT

SF 4,600 PER KILOGRAM COMPARED CURRENT MARKET PRICE
ABOUT SF 10,500. SNB DOES NOT INTEND TO REVIEW ITS
GOLD HOLDINGS FOR TIME BEING.

4. SNB VIEWS:

A) SNB PRES LEUTWILER TOLD ANNUAL SNB MEETING
THAT EARLY 1978 SF APPRECIATION RESULTED FROM SF
ATTRACTIVENESS AS RESERVE CURRENCY IN FACE OF DOLLAR
WEAKNESS AND LARGE SWISS CURRENT ACCT SURPLUS. SAID
SWISS CURRENT ACCT SURPLUS COULD RISE TO SF 9 BILLION
IN 1978 FROM SF 8.3 BILLION IN 1977. MOST INCREASE
STEMS FROM NET EARNINGS OF FOREIGN ASSETS; REDUCTION
IN IMPORT PRICES FROM SF APPRECIATION IS ANOTHER
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FACTOR. HE EXPECTED SF DEPRECIATION (ALREADY UNDERWAY);
BUT UNCERTAINTIES REMAIN AND CHANGES IN CONFIDENCE RE
US DOLLAR MAY EXERT DECISIVE INFLUENCE ON SF EXCHANGE
RATE.

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B) LEUTWILER SAID INTL SUMMIT AND OTHER INTER-GOVT CONFERENCES HAVE BEEN UNABLE TO SOLVE INTL MONETARY PROBLEMS WHICH ARE ESSENTIALLY NATL PROBLEMS. INTL MONETARY COPERATION AND IMPROVEMENT CANNOT BE SUCCESSFUL WHEN THERE IS SERIOUS INFLATION DIFFERENTIAL BETWEEN MAJOR COUNTRIES, SERIOUS WORLD TRADE IMBALANCE, AND ENORMOUS LIQUIDITY SURPLUS ON INTL FINANCIAL MARKETS. EXCHANGE RATE STABILITY DEPENDS ON DOMESTIC PROCE STATILIZATION EFFORTS, TACKLING FUNDAMENTAL CAUSES OF EXCHANGE RATE UNREST, AND RESISTING ILLUSION US DOLLAR CAN BE REPLACED. AS RESERVE CURRENCY. EUROPEAN CURRENCY COOPERATION SHOULD INCLUDE DOLLAR, NOT BE TARGETED AGAINST DOLLAR AND SEEK COOPERATION OF OPEC WHOSE FINANCIAL TRANSACTIONS CAN AFFECT TOREX MARKETS.

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C) LEUTWILER EXPRESSED SATISFACTION WITH US EMPHASIS ON CONTROLLING INFLATION. SAID SWISS WOULD NOT GIVE US ADVICE ON ECONOMIC POLICY; SWISS WOULD RESENT FOREING ADVICE. SAID SNB FOREX PURCHASES FROM END SEPT 1977 TO END MAR 1978 WAS NET \$2 BILLION; SWISS MONETARY BASE WAS UP 25 PCT ON ANNUAL BASIS AT END DEC, JAN AND FEB. MAIN CONCERN OF SNB POLICY IS SF EXCHANGE RATE WHICH IS STILL TOO HIGH. WILL LOOK TO STRENGTHEN SNB INTERVENTION POLUCY; COUND BE MORE ACTIVE IN FORWARD OPERATIONS UP TO 24 MONTHS. HOWEVER, SNB POLICY REMAINS TO SMOOTH OUT EXCESSIVE RATE FLUCTUATIONS BUT NOT RESIST BASIC TRENDS.

5. CAPITAL AND MONEY MARKETS: STOCK PRICES FELL ABRUPTLY IN EARLY WEEK THEN RECOVERED SLIGHTLY; SKA SHARE INDEX FELL 1.5 PCT TO 140.8. BANKERS CONTINUED TO URGE CAUTION IN BYING US SHARES; EMPHASIZED DIFFICULTY OF JUDGING US MARKET IN RECENT YEARS. HOWEVER, BELIEVED US STOCK MARKET DIP ONLY TEMPORARY; FURTHER MARKET ADVANCE COULD BE STIMULATED BY INVESTORS WAITING TO TEST MARKET STRENGTH. SNB OPERATIONS SLIGHTLY REDUCED MARKET LIQUIDITY. AVERAGE YIELD CONFEDERATION BONDS ROSE SLIGTLTY TO 3.40. NEW OBLIGATION EMISSIONS WERE ANNOUNCED WITH INTEREST RATES OF 3.25 AND 3.75 PCT FOR DOMESTIC BORROWERS AND 4 PCT FOR FOREIGN; MOST EMISSION PRICES WERE SET AT 99 AND 99.5 PCT OF PAR.

6. SNB STATEMENT: END APR SNB BALANCE SHEET TOTAL

TAS 3 PCT BELOW END MAR BUT 13.7 PCT ABOVE END APRIL
1977. FOREX HOLDINGS FELL 2.3 PCT IN APR AND WERE
57.4 PCT ABOVE END APR 1977. NOTES IN CIRCULATION
WERE UP 2.1 PCT IN MAR AND WERE 4.8 PCT ABOVE END
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MAR 1977. GIRO ACFTS WERE 15.9 PCT ABOVE END MAR 1977.

CHANGE FROM MAR 31
(IN MILLIONS OF SF)

ASSETS

GOLD	11,904	--	--
FOREX	19,647	DOWN	467
ROOSA BONDS	3,360	DOWN	137
DISCOUNTED PAPER	235	DOWN	401
LOMBARD LOANS	218	DOWN	1
OTHER	777	DOWN	165

LIABILITIES

NOTES IN CIRCULATION	19,826	UP	401
GIRO ACCTS	8,059	DOWN	3,275
SIGHT DEPOSITS	2,795	DOWN	52
STERLIZATION ORDERS	3,752	UP	1,678
OTHER	1,709	UP	77
BALANCE SHEET TOTAL	36,141	DOWN	1,171

7. DUNLOP: PRESS REPORTED DUNLOP INTL LTD (DIL),
SUBSIDIARY OF DUNLOP HOLDINGS GROUP, WILL RELOCATE
IN ZURICH FROM UK. DIL IS HOLDING COMPANY FOR
DUNLOP OPERATIONS IN US, JAPAN, AFRICA AND SOUTHEAST
ASIA. TRANSFER TO ZURICH EXPLAINED AS MOVE TO RECOVER
PENALTY PAYMENT ON UK RESIDENTS' INVESTMENTS ABROAD;
DIL MAY ALSO WANT TO HOLD MORE SF LIQUIDITIES.
MOVE TO ZURICH WOULD BRING INTO SWITZERLAND SF 250
MILLION IN CAPITAL SHARES PLUS ANNUAL REVENUE SF 20
TO 50 MILLION. SOME FEAR MOVE WOULD CONTRIBUTE
TO PRESSURE ON SF, IF ONLY marginally. RELOCATION
REQUIRES SNB APPROVAL, AS DO ALL FOREX TRANSFERS OVER
SF 10 MILLION.

8. FIRESTONE: INTL CHEMICAL WORKERS UNION ALLEGED
FIRESTONE INTENDS CLOSE SWISS AND OTHER PLANTS IN
WEST EUROPE IN FAVOR OF TIRE PLANTS OPERATING IN
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EAST EUROPEAN COUNTRIES; FIRESTONE REPORTEDLY DENIED
HAVING ANY PLANTS IN OR PLANNING TIRE IMPORTS FROM

EAST EUROPE.

9. INDICATORS: SWISS NOMINAL RETAIL SALES ROSE 1.5 PCT
IN MAR COMPARED TO MAR 1977; FIRST QUARTER SALES
WERE UP 1.8 PCT COMPARED FIRST QUARTER 1977. SOME
540 SWISS FIRMS WERE OPERATING ON REDUCED HOURS END
MAR COMPARED 1001 MAR 1977; NUMBER OF EMPLOYEES WORKING
PART-TIME FELL TO 9,133 FROM 16,354 END MAR 1977. AUTO-
MOBILE REGISTRATIONS WER 234,201 END 1977, UP 30,367 OR 14.9
PCT FROM 1976; WEST GERMANY LED WITH 106,373;
FRANCE HAD 48,069, ITALY 29,195, JAPAN 28,348, AND UK
8,614. JAPANESE CARS HAD REGISTERED LARGEST GROWTH,
36 PCT MORE CARS IN 1977. CROWLEY

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